



30 September 2019

Mr Tim Wong
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Financial Services Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: addoninsurance@treasury.gov.au

Dear Mr Wong

Treasury Proposal Paper - Reforms to the sale of add-on insurance products

This submission is made by the Zurich Australia Life and Investments business (Zurich).

The only add-on insurance product relevant to the Zurich Australia Life and Investments business is Mortgage Protection Insurance ("MPI"), a Consumer Credit Insurance ("CCI") product sold in conjunction with or in relation to home loans. As such, our feedback relates solely to this product.

Zurich welcomes Treasury consultation under its Proposal Paper in relation to "Reform to the sale of add-on insurance products" and appreciates the opportunity to provide feedback.

Background

The Treasury Proposal Paper outlines the Government's proposed response to the Royal Commission recommendation that calls for an industry-wide Deferred Sales Model ("DSM") for add-on insurance products.

As requested, we provide our feedback on how the measures can be best implemented in relation to MPI. Specifically we respond to the following two enquiries raised in your proposal:

- **Tier design** - why MPI should reside in a particular tier with reference to sales process, claims ratios and distribution channels.
- **Trigger Event** - how the DSM trigger would correspond to current business practices in selling MPI with reference to the number and frequency of customer touch points in the sales process and at what point in the sales process financial commitments are typically made by consumers.

Feedback

We support the objective of the proposed DSM, to promote informed purchasing decisions by consumers in add-on insurance markets and provide the following feedback on its implementation for MPI.

1. Tier design

We believe that MPI is a Tier 2 product and that the proposed DSM would apply.

The rationale to support this is:

- This product is currently distributed through the ANZ Bank, under the ANZ brand and is a core offering for the ANZ Home Owner customer segment. It is sold in conjunction with or in relation to an ANZ Home Loan.
- Home Loan customers are making one of the largest financial commitments of their lives and it is important they have access to quality insurance options covering events such as death, sickness / accident and involuntary unemployment.
- The MPI product is designed specifically for ANZ Home Loan customers. In the event of death, the home loan is repaid in full and in the event of sickness/accident or involuntary unemployment, home loan repayments are covered for prescribed periods of time.
- In addition to MPI, ANZ customers also have the option of meeting with an ANZ financial planner who can provide broader and more comprehensive personal advice.
- As reported by ASIC in its Report 622, the loss ratio for the MPI product distributed by ANZ from FY2011-18 was 41.15 cents (significantly higher than the ratios reported for CCI products sold with credits cards and personal loans and higher than the ratios reported for MPI sold by other lenders).

Zurich is in the process of developing a new MPI product to replace the current offering which is scheduled to launch in March 2020. The new solution will deliver more benefits for customers and an improved customer experience. The new sales process will include a 4-day deferral and will be compliant with all other recommendations contained in ASIC Report 622.

2. Trigger Event

Zurich understands and agrees with the objective that the deferral period commences after the consumer has made a concrete decision to purchase or acquire the primary product and that 4 days is an appropriate deferral period. Feedback on how we see this working for MPI:

MPI is offered to consumers under 2 scenarios:

- In conjunction with a consumer obtaining financing for the purchase of a property/home (new home loan customers).



- To existing home loan customers when a need for insurance is uncovered.

Our interpretation of your proposal is that the DSM would only apply when MPI is offered to new home loan customer in conjunction with their loan and that it would not apply when MPI is offered to customers subsequently in respect of their existing home loan.

We note the broad range of add-on insurance products covered by this proposal and the fact that sales processes of the underlying products can differ significantly in terms of timeframes, process and complexity.

The sales process for a home loan is complex and time consuming and can vary by lender. A typical home loan sales process includes the following steps:

- Initial home loan interview – the customer and banker discuss the customer’s lending requirements, financial position and factors such as loan eligibility and borrowing capacity
- Home loan application – the customer completes and submits a home loan application and provides supporting documentation
- Loan approval – the lender makes an offer to the customer, including approved loan amount and terms and conditions
- Settlement/funding – the loan is drawn-down and funded at settlement of the property transaction, often several weeks after loan approval

The time lag between application and settlement /funding can vary considerably but as a guide is typically 30-60 days.

We believe that the loan approval stage of the Home Loan process constitutes a concrete decision by the consumer to purchase / arrange finance and as such is the appropriate trigger event for MPI. This is consistent with ASIC’s recommendation in Report 622 that Lenders should incorporate a four-day DSM for all CCI products across all channels, with the deferral period starting the day after the consumer is told their loan is approved.

3. Other

- **The definition of “add-on insurance”** requires tightening as it could be interpreted more broadly than is intended. In particular it should be clear that it does not apply to Life insurance where personal advice is provided.
- **Deferred sales process - The proposed form of contact post the deferral period of “via written correspondence, but only on one occasion” is in our view unnecessarily prescriptive, an outdated method of communication and a poor customer experience.** Contact with consumers takes various forms, typically suited to the needs or preferences of the consumer (e.g. face to face, SMS, email, telephone). From a customer experience



perspective it makes sense for the customer to be contacted in their channel of choice or the same channel as the sale of the Primary Product. In the case of MPI, we would expect customers that have consented to be contacted to be follow up by the lender at the end of the deferral period – this could take the form of a face to face meeting or telephone conversation (based on customer preference) with the MPI application then provided or emailed to the customer to complete / sign.

Thank you for the opportunity of providing this feedback. Please do not hesitate to contact me if you have any questions or require any further assistance in relation to this matter.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Tim Bailey', is written over a light blue horizontal line.

Tim Bailey
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Zurich Australia Limited